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United Cigar-Whelan Stores Corporation

ANNUAL REPORT

for the year

1948

UNITED CIGAR-WHELAN STORES CORPORATION

EXECUTIVE OFFICES • 215 FOURTH AVENUE, NEW YORK 3, N. Y.

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DIRECTORS

KENNETH J. HANAU,* Chairman of the Board
Executive Vice President and Treasurer,
Wagner Baking Corporation, Newark, N. J.

CHARLES ALLEN, JR.,
Senior Partner, Allen & Co., New York, N. Y.

DAVID G. BAIRD,
Vice President, Marsh & McLennan, Inc.,
New York, N. Y.

HUGH B. BAKER,
Partner, Baker, Weeks & Harden,
New York, N. Y.

WALTER G. BAUMHOGGER,*
President and Chairman of the Executive Committee.

HENRY C. BRUNIE,
President, Empire Trust Company,
New York, N. Y.

EDWARD E. CODY,
Vice President and Treasurer.

FRANK M. HEAD,
Vice President and General Merchandise Manager.

HOULDER HUDGINS,*
President, Sloane-Blabon Corporation,
New York, N. Y.

HARRY RUBENOFF,
Vice President and General Counsel.

B. A. TOMPKINS,*
Director and Vice President, Bankers Trust Company, New York, N. Y.

DALLAS S. TOWNSEND,
Partner, Townsend & Lewis, New York, N. Y.

JOHN WHITNEY,*
Partner, Riter & Co., New York, N. Y.

* Member—Executive Committee

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OFFICERS

WALTER G. BAUMHOGGER, President

FRANK A. CANONICO, Vice President
HARRY M. CHICHESTER, Vice President
EDWARD E. CODY, Vice President and Treasurer
HERMAN H. GOLDSTEIN, Vice President
EMILE E. GRIGNARD, Vice President
FRANK M. HEAD, Vice President
EDWARD KLETTER, Vice President
HARRY RUBENOFF, Vice President
A. HERBERT SMITH, Vice President
HAROLD W. JACOBSEN, Secretary

PAUL OLSEN, Comptroller,
Assistant Secretary and Assistant Treasurer

UNITED CIGAR-WHELAN STORES CORPORATION

Annual Report

March 28, 1949

To the Stockholders of

UNITED CIGAR-WHELAN STORES CORPORATION:

The consolidated financial statements of your corporation for the year ended December 31, 1948, together with the certificate of Messrs. Price, Waterhouse & Co., independent public accountants, are included in this annual report.

Comparisons of sales and profits transferred to earned surplus for the years 1947 and 1948 are as follows:

	Sales volume	Profit transferred to earned surplus
1947	$78,279,231	$1,277,280
1948	77,419,967	913,977

Profit transferred to earned surplus in 1947 included $212,500, the remaining balance in the reserve for wartime and postwar contingencies.

During the first eight months of 1948 there was a sharp decline in the profit from operations earned by the corporation's stores. This decline was caused by the levelling off of sales volume accompanied by a material increase in operating expenses (chiefly but by no means exclusively wages) and a decrease in gross profit margin on sales. Starting with September, 1948, however, profit from operation of stores improved substantially. This improvement was due primarily to three factors: (1) the cumulative effect of planned reduction in overhead expenses; (2) an improvement in gross profit margin on sales volume; (3) additional sales volume and profit earned by new and remodelled stores.

In 1948 some marginal or unprofitable stores were closed, and a number of company-owned cigar stores were converted into agencies.

During 1948 your corporation continued its previously planned expansion program. 8 new drug stores were opened; 5 existing drug stores were enlarged and completely remodelled; and 7 drug stores were partially remodelled. Expansion of the Drug Store Division will be continued in 1949.

The financial position of your corporation on December 31, 1948 was sound. The ratio of current assets to current liabilities was 3.14.

It gives Management much pleasure to be able to compliment not only the corporation's executive organization but its organization-at-large for the spirited, capable, and courageous manner in which they attacked and, in many instances, solved the numerous and extraordinarily difficult problems with which the corporation was faced in 1948. In our type of business it has been and still is impossible to increase selling prices to compensate for the constant and cumulative increase in operating expenses, or to pass on to customers these higher costs of doing business. Instead, drug store and cigar store selling prices, generally, again remained static.

It is gratifying to be able to report that your corporation ended 1948 with an upswing in earnings and in a good financial position.

WALTER G. BAUMHOGGER,
President.

ANNUAL MEETING

Pursuant to the By-Laws of the Corporation, the Annual Meeting of Stockholders will be held on May 18, 1949. Accompanying this Annual Report and enclosed herewith to Common Stockholders is the Notice of such Annual Meeting, together with the proxy statement and form of proxy.

PRICE, WATERHOUSE & CO.

56 Pine Street,
New York 5, N. Y.
March 21, 1949

To the Board of Directors of
UNITED CIGAR-WHELAN STORES CORPORATION:

We have examined the consolidated balance sheet of United Cigar-Whelan Stores Corporation and its subsidiary companies as of December 31, 1948 and the related consolidated statements of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the company and its subsidiary companies at December 31, 1948, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1948 AND 1947

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

ASSETS

	December 31, 1948	December 31, 1947
CURRENT ASSETS:		
Cash	$ 3,933,845	$ 4,618,902
United States Government securities, at cost (market value December 31, 1948, $400,300)	401,500	757,300
Accounts and notes receivable, less estimated doubtful accounts	1,886,511	1,484,909
Inventories of merchandise and supplies, at cost or market whichever is lower	12,789,859	12,586,185
Merchandise inventories with agents	518,025	492,350
Prepaid insurance, taxes and rents	451,238	446,970
Total current assets	19,980,978	20,386,616
MISCELLANEOUS INVESTMENTS, at or below cost, and notes and accounts receivable due after one year	233,477	90,568
FIXED ASSETS, at cost or less:		
Land	101,505	690,297
Buildings	1,189,526	1,238,526
Furniture, fixtures and equipment (includes approximately $1,176,000 on which depreciation provided is equal to the asset)	5,908,369	5,640,048
	7,199,400	7,568,871
Less—Depreciation provided	2,723,787	2,708,876
	4,475,613	4,859,995
Improvements to leaseholds, less amortization	3,025,367	2,746,814
Construction in progress	852,717	630,140
Total fixed assets	8,353,697	8,236,949
DEFERRED CHARGES	139,772	140,867
Total Assets	$28,707,924	$28,855,000

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1948 AND 1947

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

LIABILITIES AND CAPITAL

	December 31, 1948	December 31, 1947
CURRENT LIABILITIES:		
Accounts payable	$ 3,536,774	$ 3,446,793
Dividend payable	42,556	42,556
Taxes accrued and withheld	688,073	745,575
Accrued compensation and other current and accrued liabilities	1,070,170	1,209,728
Provision for federal taxes on income	497,048	633,458
Notes payable and mortgage payment due within one year	520,750	508,000
Total current liabilities	6,355,371	6,586,110
LONG-TERM DEBT:		
Notes payable, 2½%, $250,000 due each January and May, 1950-1953	1,750,000	2,250,000
Notes payable, 3½%, due 1953-1961	5,000,000	5,000,000
Mortgages payable	4,981	165,073
Total long-term debt	6,754,981	7,415,073
CAPITAL STOCK AND SURPLUS (Notes A and B):—		
Convertible Preferred Stock:		
Authorized and issued — 50,000 shares, par value $100 a share, $3.50 dividend cumulative	5,000,000	5,000,000
Common Stock:		
Authorized—3,000,000 shares, par value 30¢ a share Issued—2,307,308 shares	692,192	692,192
Paid-in surplus	4,897,297	4,897,297
Earned surplus since July 1, 1939	5,135,090	4,391,335
Less—Treasury stock, at cost—1,367 shares Convertible Preferred Stock $125,764 and 4,144 shares Common Stock $1,243	(127,007)	(127,007)
Total capital stock and surplus	15,597,572	14,853,817
Total Liabilities and Capital	$28,707,924	$28,855,000

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEARS 1948 AND 1947

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

	1948	*1947*
Net Sales	$77,419,967	$78,279,231
Cost of sales	55,683,527	56,080,823
	21,736,440	22,198,408
Display advertising, sundry commissions, etc.	1,645,833	1,647,934
Rentals and other income	829,389	742,994
Profit on disposition of fixed assets and leases	441,750	109,352
	24,653,412	24,698,688
Salaries, wages and other compensation	13,151,365	13,128,302
Rent expense	4,167,153	4,170,762
Taxes, other than taxes on income	834,533	731,127
Depreciation and amortization	966,998	893,068
Other operating and administrative expenses	4,001,702	4,049,305
Interest on long-term debt	234,774	246,753
Other charges	28,910	64,591
	23,385,435	23,283,908
	1,267,977	1,414,780
Provision for estimated taxes on income:		
Federal taxes on income	350,000	545,000
Less—Excess provision made in prior years	—	(200,000)
State income taxes	4,000	5,000
	354,000	350,000
	913,977	1,064,780
Transfer of balance of reserve for wartime and postwar contingencies	—	212,500
Profit transferred to earned surplus	$ 913,977	$ 1,277,280

CONSOLIDATED STATEMENT OF EARNED SURPLUS

FOR THE YEARS 1948 AND 1947

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

	1948	*1947*
Balance at beginning of year	$ 4,391,335	$ 4,088,757
Profit transferred from consolidated statement of profit and loss	913,977	1,277,280
	5,305,312	5,366,037
Write-off of unamortized balance of goodwill as at May 31, 1947	—	804,480
Dividends on Convertible Preferred Stock, $3.50 a share	170,222	170,222
	170,222	974,702
Balance at end of year (Note A)	$ 5,135,090	$ 4,391,335

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A:

At December 31, 1948 the difference between the involuntary liquidating value of $5,179,415 of the Convertible Preferred Stock outstanding (excluding treasury stock) and the par value of such stock amounted to $316,115. In the opinion of counsel for the corporation the right to the difference between the par value of the Convertible Preferred Stock and such liquidation preference is not a restriction upon the distribution of surplus as dividends.

The corporation's loan agreement covering notes payable provides, among other restrictions and limitations, that the corporation will not declare or pay dividends (other than dividends payable in its common stock) or purchase or redeem any of its outstanding capital stock if: (1) the total disbursements for such dividends, purchases or redemptions will exceed $250,000 plus 60% of consolidated net earnings of the corporation and its subsidiaries accruing subsequent to December 31, 1945, and (2) immediately thereafter, and as a result thereof, consolidated current assets will be less than 133% of consolidated indebtedness. Under the foregoing provisions, the paid-in surplus of $4,897,297 and approximately $3,455,000 of the consolidated earned surplus of $5,135,090 at December 31, 1948 may not be used in the payment of dividends (other than dividends payable in its common stock) or for the purchase or redemption of any outstanding capital stock of the corporation.

NOTE B:

The Convertible Preferred Stock is entitled in liquidation to and is redeemable in whole or in part upon 30 days' notice at $106 a share during 1949, and at an amount 50c less per share cumulative for and during each of the eleven years 1950 to 1960, and thereafter at $100 a share plus, in each case, accrued dividends to the date of redemption or liquidation. Each share of Convertible Preferred Stock is exchangeable for common stock at the rate of 5 shares of common stock if exchanged on or before June 30, 1950 and 4 shares of common stock if exchanged thereafter.

The Whelan Creed

This Creed is on display in every Whelan Drug Store. All Whelan employees are required to conform to the provisions of the Creed.

1. Quality – All merchandise handled by Whelan Drug Stores must be of a quality that is acceptable to Whelan's Bureau of Standards. (Whelan's Bureau of Standards is a modern, well-equipped testing laboratory. It inspects and tests samples of all merchandise shipments received at Whelan's central Depot.)

2. Prices – Whelan's selling prices are intended to be the lowest possible prices that can result from Whelan's huge purchasing power and mass distribution methods.

3. Service – The Whelan organization is instructed to give to Whelan customers the kind of service that builds lasting customer-satisfaction – and is taught how to do so. It is instructed to be courteous and friendly in its dealings with customers. It is instructed always to describe merchandise honestly and never to make exaggerated claims or statements.

NO SUBSTITUTES – The Whelan Management will not tolerate any attempt at substitution. Our Policy is to give the customer what he asks for. Any deviation of this rule is a violation of the Company's Policy. The Whelan organization is instructed to give customers timely and helpful suggestions, but never to substitute any item for the one requested.

4. Guarantee – Whelan's guarantee is that the customer must always be satisfied, and that in the event of dissatisfaction for any reason whatsoever, the purchase price will be refunded cheerfully and without question or argument.

5. Professional Ethics – In its drug and prescription departments, Whelan employs only graduate pharmacists who have been licensed by the State Boards of Pharmacy. Whelan, therefore, maintains the highest possible code of professional ethics in the compounding of prescriptions and the selling of antitoxins, biologicals, etc.

6. Employees – The Whelan Management attempts to provide for Whelan Employees standards of wages and working conditions that are at least the equal of the best in the drug store industry. It is only by maintaining such standards that Whelan is able to have an organization that is capable of serving its customers in the manner that the Whelan Management insists upon.

We believe that drug stores, more, perhaps, than any other type of retail store, make an important contribution to community life in America. Drug stores, among the other services that they offer the public, are of great assistance to the medical profession in maintaining proper public health requirements. We are proud of the fact that we are in the drug store business. We are proud of the fact that we are among the leaders in our industry. It is our ambition to serve the public in such a manner that we shall be deserving of its confidence, and, therefore, of its patronage. This is *the essence* of THE WHELAN CREED.

Home Office

215 Fourth Avenue — New York 3, N. Y.

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Branch Offices and Warehouses

82 39th Street, Bush Terminal Bldg. No. 22	Brooklyn 32, N. Y.
5000 District Boulevard	Los Angeles 11, Cal.
239-243 N. W. 28th Street	Miami, Fla.
327 So. La Salle Street	Chicago 4, Ill.

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Transfer Agents

Convertible Preferred Stock and Common Stock

Empire Trust Company, New York, N. Y.

Convertible Preferred Stock and Common Stock

Registrar and Transfer Company, Jersey City, N. J.

Registrars

Convertible Preferred Stock and Common Stock

Bankers Trust Company, New York, N. Y.

Common Stock

Commercial Trust Company of New Jersey, Jersey City, N. J.